

OUR INVESTMENT PRINCIPLES AND BUSINESS ETHICS



The Funds' mission underlines our clear target group orientation, and our goal to develop financial markets in Southeast Europe to become more inclusive and efficient at the same time. The Fund seeks to implement this mission in a responsible manner, basing our corporate values on high standards of business ethics.

Additionality. The Fund aims to provide additional development finance: The Fund considers itself to be an incubator and risk-taker to pave the way for private investors. The Fund is ready to withdraw or change its role where the private sector begins to provide financial services previously offered by the Fund. Additionally, the Fund complements ongoing development finance initiatives, contributing to the harmonisation of policies.

Transparency and disclosure of information. We adhere to the principle of transparent operations. In this perspective, we publish information on our investment activities on a quarterly basis. At present, there are two Quarterly Fact Sheets: one summarising achievements in the area of development performance, one presenting key information on the Fund's investment transactions.

The Fund continuously provides updated information to MIX Market, a global, web-based, microfinance information platform that seeks to contribute to greater information and investment flows in the sector (www.mixmarket.org).

Finally, as one of the first microfinance funds to receive the LuxFLAG label, the Fund regularly submits information to this Luxembourg-based fund labelling agency.

Compliance of our partner institutions with high standards of business ethics. Besides analysing the financial strength of our partner institutions and their target group orientation as minimum conditions to make an investment, the Fund requires that partner institutions adhere to the principles of corporate social responsibility.

The following areas are scrutinised on a regular basis in the relationship with partner institutions:

- **ANTI-MONEY LAUNDERING AND ANTI-TERRORIST FINANCING.**

All partner institutions are assessed to what extent they protect themselves against becoming a vehicle for money laundering or other illicit financial transactions such as terrorist financing. The Fund therefore continuously reviews the level of compliance with international best practices of "knowing your client".

- **INTEGRITY CHECKS OF MANAGERS AND OWNERS.**

The Fund investigates the reputation, business conduct and any other track record of managers and owners of partner institutions when initiating a relationship with partner institutions.

- **ENVIRONMENTAL AND SOCIAL GUIDELINES.**

The Fund applies a comprehensive set of guidelines to align our investment activities with international environmental and social best practices.

The Fund screens potential new partner institutions during the due diligence process regarding their implementation of environmental management systems, social policies, and the environmental compliance of their current portfolio.

The basis for this screening is a social and environmental exclusion list that has been developed according to international standards. This exclusion list serves as a guideline to facilitate the rejection of loan applications from companies whose activities are considered environmentally hazardous. By doing so, the Fund wishes not only to raise awareness on the matter among staff from partner institutions but also to create an impact at the client level.

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Versorgungsfonds des
Ministeriums der Finanzen
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ADEQUATE LENDING TECHNOLOGY AND EQUAL ACCESS TO ENDBORROWERS.

The Fund requires that partner institutions do apply or are willing to apply lending technologies that respond to the specific needs of MSEs. In particular, we expect that partner institutions focus primarily on the repayment capacity of the end-borrowers and, hence, base their credit analysis on the cash-flows of the small businesses. Furthermore, partner institutions should provide non-discriminatory access to end-borrowers, i.e. independent of their sex, religious or ethnic background.

• FAIR BUSINESS PRACTICES.

Partner institutions must be committed to the principles of fair competition and refrain from subsidised, unsound lending practices or price dumping. Additionally, clients must receive transparent information on the terms and conditions of the services offered by the partner institutions. By the same token, the Fund also expects that partner institutions fully disclose information as required by law and according to standard requirements of international creditors.

Close monitoring of partner institutions and end-borrowers. The Fund adheres to the principle “what you want to promote, you have to measure”. The Fund analyses financial and other relevant institutional information on the partner institutions on a regular basis, particularly in view of the aspects mentioned above.

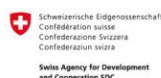
Additionally, we carry out quarterly sub-loan monitoring in order to assess how and where the funds are invested and whether this onlending process has been in compliance with the Fund’s development objectives.

Finally, the Fund carries out an Annual Impact Study, which scrutinises in-depth the development orientation of the Fund, retrieving primary data from partner institutions and end-borrowers. Another part of the Annual Impact Study is the assessment of the level of compliance of the partner institutions with the above-mentioned ethical business principles. To ensure the objectivity of results, the Annual Impact Study is commissioned to third parties.

Presence in the markets and proximity to partner institutions to establish long-term relations. Through the local offices of the Fund Advisor, the Fund has established a strong presence in the region and is in day-to-day contact with the partner institutions. This allows not only close risk monitoring but also a high service quality through immediate access of the local stakeholders and partner institutions to the Fund whenever needed. Proximity to our local partners through permanent offices is also essential to build long-term relations and underlines our long-term commitment to the target region, even in difficult times.

Responsible HR policy of Fund service providers. The Fund cares about how its service providers – primarily the Advisor due to its day-to-day contact with the partner institutions and local stakeholders – represent the Fund’s “face to the customer”. In this respect, staff management is key. The Advisor carefully selects staff involved in the Fund’s operations. All staff must endorse the Fund’s fundamental principle of combining a social mission with a commercial approach. The Advisor’s staff benefits from substantial investments in training and coaching to continuously improve their skills to enhance the Fund’s service quality. Finally, the Advisor promotes the accountability of staff through decentralised operations, delegation of tasks and recognition of individual and group performance.

EFSE – A Development Finance Initiative supported by



Lead Investor and Initiator:



Fund Manager:

SAL.OPPENHEIM

Advisor:



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